



NOTICE OF ADVANCEMENT
CC: 96-45

Christine O. Gregoire

ATTORNEY GENERAL OF WASHINGTON

Utilities and Transportation Division

1400 S Evergreen Park Drive SW • PO Box 40128 • Olympia WA 98504-0128 • (360) 664-1183

August 14, 1998

VIA FEDERAL EXPRESS

Magalie R. Salas, Secretary
Federal Communications Commission
1919 M Street NW, Room 222
Washington, D.C. 20554

RECEIVED
AUG 17 1998
FCC MAIL ROOM

RE: Petition for Agreement with Designation of Rural Company Eligible
Telecommunications Carrier Service Areas at the Exchange Level and
for Approval of the Use of Disaggregation of Study Areas for the Purpose
of Distributing Portable Federal Universal Service Support

Dear Ms. Salas:

Enclosed for filing are an original and four copies of the Petition for Agreement with Designation of Rural Company Eligible Telecommunications Carrier Service Areas at the Exchange Level and for Approval of the Use of Disaggregation of Study Areas for the Purpose of Distributing Portable Federal Universal Service Support. The original is unbound, per your request.

We enclose an additional copy of the cover page and request that it be file stamped and returned in the enclosed envelope. Because Appendix D is an oversize, color document, we enclose an additional 5 copies.

Sincerely,


JEFFREY D. GOLTZ
Sr. Assistant Attorney General

JDG:kl

Enclosures

cc: Richard Finnigan (w/encl)
Robert Snyder (w/encl)

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

RECEIVED
JUN 17 1998
FCC MAIL ROOM

In the Matter of:

The Washington Utilities and Transportation Commission, Asotin Telephone Company, CenturyTel of Cowiche, Ellensburg Telephone Company, CenturyTel of Washington, Hat Island Telephone Company, Hood Canal Telephone Co., Inc., Inland Telephone Company, Kalama Telephone Company, Lewis River Telephone Company, Mashell Telecom, Inc., McDaniel Telephone Company, Pend Oreille Telephone Company, Pioneer Telephone Company, St. John, Co-operative Telephone And Telegraph Company, Tenino Telephone Company, The Toledo Telephone Co., Inc., United Telephone Company of the Northwest, Western Wahkiakum County Telephone Company, Whidbey Telephone Company, and Yelm Telephone Company

**PETITION FOR AGREEMENT WITH DESIGNATION OF
RURAL COMPANY ELIGIBLE TELECOMMUNICATIONS
CARRIER SERVICE AREAS AT THE EXCHANGE LEVEL
AND FOR APPROVAL OF THE USE OF DISAGGREGATION
OF STUDY AREAS FOR THE PURPOSE OF DISTRIBUTING
PORTABLE FEDERAL UNIVERSAL SERVICE SUPPORT**

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In the Matter of:

The Washington Utilities and Transportation Commission, Asotin
Telephone Company, CenturyTel of Cowiche, Ellensburg
Telephone Company, CenturyTel of Washington, Hat Island
Telephone Company, Hood Canal Telephone Co., Inc., Inland
Telephone Company, Kalama Telephone Company, Lewis River
Telephone Company, Mashell Telecom, Inc., McDaniel Telephone
Company, Pend Oreille Telephone Company, Pioneer Telephone
Company, St. John, Co-operative Telephone And Telegraph
Company, Tenino Telephone Company, The Toledo Telephone
Co., Inc., United Telephone Company of the Northwest, Western
Wahkiakum County Telephone Company, Whidbey Telephone
Company, and Yelm Telephone Company

**PETITION FOR AGREEMENT WITH DESIGNATION OF
RURAL COMPANY ELIGIBLE TELECOMMUNICATIONS
CARRIER SERVICE AREAS AT THE EXCHANGE LEVEL
AND FOR APPROVAL OF THE USE OF DISAGGREGATION
OF STUDY AREAS FOR THE PURPOSE OF DISTRIBUTING
PORTABLE FEDERAL UNIVERSAL SERVICE SUPPORT**

RECEIVED
JUN 17 1993
FCC MAIL ROOM

Table of Contents

SUMMARY	iii
I. INTRODUCTION	1
II. PETITION FOR CONCURRENCE WITH WUTC'S ESTABLISHMENT OF SERVICE AREAS AS THE RESPECTIVE INDIVIDUAL EXCHANGES OF THE COMPANIES	2
A. Applicable Law	2
B. Procedural History of the WUTC's ETC Designations	4
C. The Commission Should Concur with the WUTC's Establishment of the Service Areas as the Companies' Respective Exchange Areas	5
1. In Establishing a Service Area Other than a Company's Study Area, the WUTC and the Commission Must "Take into Account" the Recommendations of the Joint Board	5
2. Procompetitive Policies of Both Federal and State Law Suggest Establishment of Service at the Exchange Level, Notwithstanding the Recommendations of the Joint Board	8
3. The WUTC Took into Account the Joint Board's Concerns About Administrative Burdens on Rural Companies if Service Other than the Study Areas Were to Be Established	10
III. PETITION FOR APPROVAL OF USE OF DISAGGREGATION OF STUDY AREAS FOR PURPOSE OF DETERMINING PORTABLE FEDERAL UNIVERSAL SERVICE SUPPORT	11

A.	The WUTC and the Rural Company Petitioners Agreed on a Methodology for Disaggregating Federal Universal Service Support from the Study Area Level So that Higher Cost Areas Would Receive Higher Support, and Lower Cost Areas Would Receive Lower Support	11
B.	Approval of the Proposed Alternative Methodology for Distribution of Portable Universal Funds Is in the Public Interest	13
III.	CONCLUSION	14

APPENDICES

WUTC Order Designating Eligible Telecommunications Carriers	Appendix A
WUTC Staff Memo Discussing Recommendations of the Joint Board	Appendix B
WUTC Staff Memo to Commissioner Gillis	Appendix C
Washington State Exchange Map (January 30, 1997)	Appendix D
Development of a Federal Support Plan that Features Sub Wire Center Targeting of Actual Federal Support	Appendix E
Schedule 7: Support Targeting Results for WITA Companies	Appendix F

SUMMARY

In implementing the provisions of the Telecommunications Act of 1996 (Federal Act) relating to universal service, 47 U.S.C. §214(e), the Washington Utilities and Transportation Commission (WUTC) approved service areas for fifteen rural telecommunications companies in Washington as the companies' respective individual exchanges. Because these designations are not for the companies' "study areas," agreement by the Commission is required pursuant to 47 U.S.C. §214(e)(5) and 47 C.F.R. §54.207.

This Petition filed by the WUTC and twenty rural telecommunications companies in Washington seeks such approval and, in conjunction with that approval, a waiver from the Commission's existing method of "porting" available universal service funds set forth in 47 C.F.R. §54.307. Specifically, we seek approval for the use of disaggregation of study areas for the purpose of distributing such federal universal service support. The proposed methodology, reached after a series of workshops involving the WUTC staff and company representatives, acknowledges that there is substantial variation in density and lengths of the local loops and would require greater federal universal service support for loops inside a "core area" (lower cost areas) and lesser for loops in a "fringe area" (higher cost areas). However, there would be no increase in the aggregate amount of such support for Washington's rural companies.

Granting this Petition would encourage competition in rural areas by limiting the requirement that competitors enter into an incumbent's entire "study area" (which may include widely dispersed exchanges), but it would minimize incentives of competitors to seek and serve only low cost customers within a given rural exchange.

I.

INTRODUCTION

Pursuant to section 214(e)(5) of the Communications Act of 1934, as amended by the Telecommunications Act of 1996 (Federal Act), 47 U.S.C. §214(e)(5), and 47 C.F.R. §54.207, the Washington Utilities and Transportation Commission (WUTC) and twenty rural telephone companies¹ petition the Federal Communications Commission (Commission) for agreement with the WUTC's service area designations which differ from the "study areas" of those companies designated as eligible telecommunications carriers (ETCs) under the Federal Act. As more fully articulated below, the WUTC designated the service areas as individual exchange areas which are served by the designated companies.

Pursuant to 47 C.F.R. §1.3, we also petition the Commission for a waiver of the existing method of "porting" available universal service funds set forth in 47 C.F.R. §54.307 and for approval of a proposed alternative methodology.² The proposed methodology reflects the

¹The following companies join in this petition to the extent set forth in footnote 2, below: Asotin Telephone Company; CenturyTel of Cowiche; CenturyTel of Washington, formerly Telephone Utilities of Washington; Ellensburg Telephone Company; Hat Island Telephone Company; Hood Canal Telephone Co., Inc.; Inland Telephone Company; Kalama Telephone Company; Lewis River Telephone Company; Mashell Telecom, Inc.; McDaniel Telephone Company; Pend Oreille Telephone Company; Pioneer Telephone Company; St. John, Co-operative Telephone And Telegraph Company; Tenino Telephone Company; The Toledo Telephone Co., Inc.; United Telephone Company of the Northwest; Western Wahkiakum County Telephone Company; Whidbey Telephone Company; and Yelm Telephone Company. Each of these companies is a "rural telephone company," as defined in section 3(37) of the Federal Act, 47 U.S.C. § 153(37).

²Because these separate requests are intertwined, they are made jointly. However, the rural company petitioners join in the request for Commission concurrence in the WUTC's establishment of service areas differing from "study areas" only if the petition for waiver is granted and use of disaggregated study-area support, as proposed in this petition, is approved by the Commission. Absent such waiver and approval, the rural company petitioners oppose

differences in costs for each exchange of the multi-exchange rural companies and also reflects the differences in costs between densely populated and sparsely populated areas within exchanges. We request that the amount of federal universal service support made portable be based on the disaggregation of the service areas into two zones per exchange or wire center ("core area" and "fringe area" described in Appendix E). We do not request, and the proposed methodology does not require, any increase in the amount of federal universal service support funds for Washington.

Consistent with the Federal Act, and with provisions of state law, the overall purpose of the WUTC's actions in designating ETCs, and in filing the petition in these matters, is to promote competition, both in urban areas and in areas served by rural telephone companies.

II.

PETITION FOR CONCURRENCE WITH WUTC'S ESTABLISHMENT OF SERVICE AREAS AS THE RESPECTIVE INDIVIDUAL EXCHANGES OF THE COMPANIES

A. Applicable Law.

The Federal Act requires designation of "eligible telecommunications carriers" (ETCs) for purposes of implementing the universal service provisions of the Federal Act. Under the Federal Act, state commissions are to designate companies as ETCs for specific "service areas." 47 U.S.C. §214(e)(2). That provision states:

A State commission shall upon its own motion or upon request designate a common carrier that meets the requirements of paragraph (1) as an eligible telecommunications carrier for a service area designated by the State commission. Upon request and consistent with the public interest, convenience, and necessity, the State commission may,

Commission agreement with the WUTC's service area designations and respectfully request that this petition be denied in its entirety.

in the case of an area service by a rural telephone company, and shall, in the case of all other areas, designate more than one common carrier as an eligible telecommunications carrier for a service area designated by the State commission, so long as each additional requesting carrier meets the requirements of paragraph (1). Before designating an additional eligible telecommunications carrier for an area served by a rural telephone company, the State commission shall find that the designation is in the public interest.

The Federal Act defines "service area" as "a geographic area established by a State commission for the purpose of determining universal service obligations and support mechanisms." 47 U.S.C. §214(e)(5)

The designation of the service area impacts the ease with which competition will come to rural areas. The designation defines the geographic reach of the obligation of companies which operate in rural areas.³ The broader the service area, the greater (and more costly) the service obligation. This geographic scope helps define the magnitude of barriers to entry to competitors in rural areas. The wider the service area defined by the state commission, the more daunting the task facing a potential competitor seeking to enter the market.

While conferring on state commissions substantial authority to establish the "service area" for an ETC, the Federal Act states that for rural telephone companies, the service area will

³Section 214(e)(1) of the Federal Act states:

A common carrier designated as an eligible telecommunications carrier under paragraph (2) or (3) shall be eligible to receive universal service support in accordance with section 254 and shall, throughout the service area for which the designation is received --

(A) offer the services that are supported by the Federal universal service support mechanisms under section 254(c), either using its own facilities or a combination of its own facilities and resale of another carrier's services (including the services offered by another eligible telecommunications carrier); and

(B) advertise the availability of such services and the charges therefor using media of general distribution.

be the company's "study area"⁴ "unless and until the Commission and the States, after taking into account recommendations of a Federal State Joint Board [Universal Service Joint Board], establish a different definition of service area for such company. 47 U.S.C. § 214(e)(5).

This petition, required by 47 C.F.R. § 54.207, seeks Commission agreement in the designations of the WUTC.

B. Procedural History of the WUTC's ETC Designations.

In Fall 1997, twenty-three companies filed petitions with the WUTC seeking designation as ETCs. The WUTC held hearings at two open meetings on the petitions, considered the petitions and various staff analyses, and designated ETCs by order dated December 23, 1997.⁵ The WUTC designated five single-exchange rural telephone companies as ETCs for service areas consisting of their respective study areas. In addition, the WUTC designated fifteen multi-exchange rural telephone companies as ETCs and defined the service areas for these multi-exchange companies to be their respective study areas for a limited period of time, through December 31, 1998. The WUTC order established the appropriate service areas for these multi-exchange companies thereafter to be the companies' respective exchanges, designated individually as separate service areas.

⁴A "study area" is generally an incumbent company's pre-existing service area in a given state. Generally, the study area boundaries are fixed as of November 15, 1984. In the Matter of Federal-State Joint Board on Universal Service, First Report and Order, CC Dkt. No. 96-45, 12 FCC Rcd. 8776, ¶172, n.434 (May 8, 1997) ("Universal Service Order"), citing MTS and WATS Market Structure: Amendment of Part 67 of the Commission's Rules and Establishment of a Joint Board, Decision and Order, 50 Fed. Reg. 939 (1985).

⁵ See Order Designating Eligible Telecommunications Carriers, WUTC Docket Nos. UT-970333 through UT-970354 and UT-970356 ("WUTC Order", attached as Appendix A).

At the request of rural telephone companies, the WUTC order which designated ETCs also required the parties to participate in workshops on the disaggregation of costs from the study area level to the exchange level.⁶ The order stated, in part:

The parties will prepare a methodology for disaggregation which can be presented in a joint petition to the FCC from the [WUTC] and the rural companies, the purpose of which will be to receive a waiver from the FCC on payment of universal service support based on study area average loop costs⁷

The order went on to say “[t]hese workshops are premised on the representations made by parties that exchange level designations would be acceptable if the FCC were to permit disaggregation of costs.”⁸ The companies requested the ability to disaggregate below the exchange level, if the information could be developed to do so, and the Commission has endorsed this effort.

C. The Commission Should Concur with the WUTC’s Establishment of the Service Areas as the Companies’ Respective Exchange Areas.

1. In Establishing a Service Area Other than a Company’s Study Area, the WUTC and the Commission Must “Take into Account” the Recommendations of the Joint Board.

The Federal Act contemplates a joint federal-state process for establishing a service area which differs from a company’s study area.⁹ Neither the Federal Act nor the implementing

⁶ The WUTC Order, at 18, referred to costs. In order to determine the amount of federal universal service support that should be made portable for each exchange, it is necessary to disaggregate study area costs to the exchange or wire center level so that the relative amount of support can be assigned. The effort to disaggregate costs to the exchange or wire center level is required because companies generally track costs at the study area level.

⁷ See WUTC Order at 18.

⁸ Id.

⁹The Commission’s Universal Service Order ¶187 states:

We conclude that the plain language of section 214(e)(5) dictates that

Commission Universal Service Order articulate specific standards for the states or the Commission to follow in establishing a service area other than the study area. The only requirement is to "take into account" the Joint Board's recommendations.

The Joint Board recommended that the service areas for areas served by rural companies remain the study areas of those companies, but included the caveat that its recommendation was "at this time," implying that as circumstances change, so might its recommendation. In the Matter of Federal-State Board on Universal Service, CC Dkt. 96-45, 12 FCC Rcd. 87, ¶172 (Nov. 8, 1996) (Joint Board Recommendation). The Board stated three reasons for recommending retention of the study area as the service area "at this time."

First, the Joint Board noted that some commenters were concerned about "cream skimming." By retaining a larger study area,

[p]otential "cream skimming" is minimized because competitors, as a condition of eligibility, must provide services throughout the rural telephone company's study area. Competitors would thus not be eligible for universal service support if they sought to serve only the lowest cost portions of a rural telephone company's study area.

Id.

Second, the Board noted that the Federal Act "in many respects places rural telephone companies on a different competitive footing from other local exchange companies," and cited

neither the Commission nor the states may act alone to alter the definition of service areas served by rural carriers. In addition, we conclude that the language "taking into account" indicates that the Commission and the states must each give full consideration to the Joint Board's recommendation and must each explain why they are not adopting the recommendations included in the most recent Recommended Decision or the recommendations of any future Joint Board convened to provide recommendations with respect to the federal universal service support mechanisms.

various provisions in the Federal Act which treat such companies differently. Joint Board Recommendation ¶173.¹⁰

Finally, the Board was concerned about the administrative difficulties rural companies may encounter in calculating costs at something other than at a study area level.¹¹

The first two of the Board's concerns relate to competition in the areas served by rural companies. The last one relates to administrative concerns. As articulated below, the WUTC "took into account" these concerns, and there exists ample reason for the Commission to concur

¹⁰The Joint Board stated:

For example, rural telephone companies are initially exempt from the interconnection, unbundling, and resale requirements of 47 U.S.C. §251(c). The 1996 Act continues this exemption until the relevant state commission finds, *inter alia*, that a request of a rural telephone company for interconnection, unbundling, or resale would not be unduly economically burdensome, would be technically feasible, and would be consistent with section 254. Moreover, while a state commission must designate other eligible carriers for non-rural areas, states may designate additional eligible carriers for areas served by a rural telephone company only upon a specific finding that such a designation is in the public interest.

Joint Board Recommendation ¶173.

¹¹The Board stated:

Another reason to retain existing study areas is that it is consistent with our recommendation that the determination of the costs of providing universal service by a rural telephone company should be based, at least initially, on that company's embedded costs. Rural telephone companies currently determine such costs at the study-area level. We conclude, therefore, that it is reasonable to adopt the current study areas as the service areas for rural telephone companies rather than impose the administrative burden of requiring rural telephone companies to determine embedded costs on a basis other than study areas.

Joint Board Recommendation ¶174.

with the WUTC's reasons for establishing service areas as the individual exchanges of the companies.

2. Procompetitive Policies of Both Federal and State Law Suggest Establishment of Service Areas at the Exchange Level, Notwithstanding the Recommendations of the Joint Board.

Washington has several multi-exchange rural telephone companies and some of those have exchanges spread across the state. Though, in part, the WUTC made ETC designations for the purpose of determining which companies could receive federal universal service funds, the WUTC also made ETC designations as a part of its efforts to bring competition to all parts of Washington.

The WUTC is particularly concerned that rural areas, of which there are many in Washington, not be left behind in the process of deregulation and the move to greater competition. Citing to the recommendations of its staff, the WUTC concluded the pro-competitive goals of the Federal Act and various provisions of state law¹² would be better served by designation of smaller, rather than larger, service areas.¹³

¹²See RCW 80.36.300(5); Electric Lightwave, Inc. v. Washington Utilities & Transportation Comm'n, 123 Wn.2d 530, 538-39, 869 P.2d 1045 (1994). The WUTC has stated its procompetition goals in a number of administrative proceedings. See, e.g., Washington Utilities & Transportation Comm'n v. US West Communications, No. UT-950200, 15th Supp. Order, 169 P.U.R. 4th 417, 427,484 (WUTC April 11, 1996), aff'd, US West Communications, Inc. v. Washington Utilities & Transportation Comm'n, 134 Wn.2d 74, 949 P.2d 1337 (1997).

¹³ WUTC Order at 12. That rationale was included in the memorandum to the Commissioners presented by Commission staff at the November 26, 1997 open meeting at which the WUTC orally approved the designations and the establishment of the service areas (the formal order was issued on December 23, 1998. A copy of that memorandum, dated November 24, 1997, is included as Appendix B. That memorandum stated in part:

Promotion of Competition

Universal service support will be made available to companies serving

The WUTC also considered and granted a petition for ETC designation from a wireless carrier.¹⁴ Entry of such a carrier into the ETC process highlights the anti-competitive result that could flow from a study-area designation for a multi-exchange rural telephone company. Because wireless and wireline service territories are geographically different, it would generally be impossible for either one to compete in the other's service area or service territory if the areas were to stretch across an entire state. Smaller, rather than larger, service area designations for ETCs promote competition and speed deregulation.

An important purpose of the Federal Act of 1996 was to promote competition in the local telephone market. The WUTC examined the effect that study-area ETC designation of rural

customers in high-cost locations to preserve those customers' participation on the network and to advance universal service through competition that will eventually result in lower prices. Payments to companies serving high-cost customer locations is necessary to maintain incumbent service in those areas as well as to induce competition from other carriers.

Because only ETCs are eligible for federal universal service support, it is important to designate as many carriers as possible to foster competition in high-cost locations. Promotion of competition as a policy principle naturally leads to a policy of designating any qualifying carrier that petitions. It might also lead to situations in which the Commission would act on its own motion to designate a qualifying, but not petitioning, carrier.

Exchange Level Service Areas

Staff recommends designation of ETCs at the exchange level rather than the study area level. The purpose is to promote competitive entry by making it easier for new entrants to get started in relatively small areas and for competing carriers to align their ETC service areas with their own service areas.

Appendix B, at 8 (footnote omitted). The WUTC also considered an earlier staff memorandum, original sent to one Commissioner, but later made available to all. See Appendix C.

¹⁴ See WUTC Order at 4, U.S. Cellular Petition for ETC designation, Docket No. UT-970345.

companies would have on competition. There are fifteen multi-exchange rural companies in Washington. Some of those have large study areas in which some or all of the exchanges are non-contiguous.¹⁵ Because of the large and non-contiguous study areas of some of the incumbents, the WUTC determined that ETC designation of incumbent, rural telephone companies at their study area level would inhibit the development of competition because competitive ETCs would have to enter an entire study area in order to compete with an incumbent.

The WUTC also compared the multi-exchange rural company study areas to those of the non-rural companies. The non-rural companies in Washington serve areas just as rural as the territory served by the rural companies. Because of the similarities, designation of rural companies at the study area level and the designation of non-rural companies at the exchange level invites uneven competition. The WUTC determined that competitors would be more likely to enter rural areas if they could serve several contiguous exchanges without regard to the nature of the incumbent as either rural or non-rural.¹⁶

3. The Commission Took into Account the Joint Board's Concerns About Administrative Burdens on Rural Companies if Service Areas Other than the Study Areas Were to Be Established.

The WUTC acknowledged the administrative concerns expressed by the rural companies during the WUTC process. See WUTC Order at 9. However, at the request of the rural companies seeking ETC designation, the WUTC delayed the effective date of exchange-level designations and worked with rural companies to develop a methodology for determining how

¹⁵ See the Washington State exchange map accompanying this petition as Appendix D.

¹⁶ See WUTC Order at 12, n. 8.

federal universal service funds for ETC study areas could be made portable on a disaggregated basis. Those concerns not only were taken into account by the WUTC, but they were accommodated, as reflected in Part III, below.¹⁷

III.

PETITION FOR APPROVAL OF USE OF DISAGGREGATION OF STUDY AREAS FOR PURPOSE OF DETERMINING PORTABLE FEDERAL UNIVERSAL SERVICE SUPPORT

- A. The WUTC and the Rural Company Petitioners Agreed on a Methodology for Disaggregating Federal Universal Service Support from the Study Area Level So That Higher Cost Areas Would Receive Higher Support, and Lower Cost Areas Would Receive Lower Support.

Company cost records generally are not kept at the exchange level and some multi-exchange rural companies serve exchanges with a wide range of costs. Pursuant to the WUTC Order, the WUTC staff and rural companies held four meetings and developed a methodology for disaggregating federal universal service support from the study area level.¹⁸ In the process, the WUTC and the rural companies concluded that there is a substantial variation in costs within exchanges. The difference is generally associated with loop length: loops terminating closer to the switch are less expensive than loops which are longer. As a result, as part of our Petition we request that intra-exchange federal universal service support from the Universal Service

¹⁷The analysis set forth in the preceding sections is the analysis and position of the WUTC. The rural companies disagree with the WUTC's actions and the basis stated for that action. However, the rural companies are willing to accept ETC service-area designation on an exchange basis if the following Petition for Approval of Use of Disaggregation of Study Areas for Purpose of Determining Portable Federal Universal Service Support is granted.

¹⁸ The result of this effort is explained in detail in the appendices to this Petition. There is a full explanation of the issues examined, the data relied upon, and the method for determining the level of federal universal service support which we recommend be made portable for support of incumbents and competitors alike.

Administrative Company (USAC) vary, with support lower for loops within any area designated as a "core area" and greater support for loops outside the core area, in what has been labeled the "fringe area." A discussion of the methodology development is included as Appendix E. This approach does not require the determination of embedded cost of service at a level below the study area. Instead, it takes the actual support for a company and disaggregates on a geographic basis the existing support determined on a study area basis.

Essentially, the Benchmark Cost Proxy Model (BCPM) was adapted to provide cost information at the census block group (CBG) level within a given wire center. Each CBG was classified as either a "zone A" or a "zone B," depending on whether the average per-line cost was below or above the average in the wire center. The support amount per zone is calculated as the difference between the per-line proxy cost for each zone and Commission benchmarks (\$31 for residential service and \$51 for business service). The resultant support amount was adjusted by a "reconciliation factor" which adjusted the aggregate amount to meet the actual 1998 federal universal service fund amount reported by the National Exchange Carrier Association (NECA). This adjustment insures that the aggregate amount under this proposed methodology does not exceed the amount available under the current method. Thus, the BCPM output date is used for the derivation of the reallocation factor, not to set the amount of the USF support for a company.

The method for determining core and fringe areas and the 1998 per loop support amounts associated with each area are contained in Appendix F.¹⁹ This methodology will place higher

¹⁹Hat Island Telephone Company ("Hat Island") is not included in Appendix F due to an absence of reliable CBG data. Hat Island is a single-exchange company. For Hat Island, FUSF support and support portability would be unaffected by the granting of this petition until the methodology described in this petition can be applied to Hat Island, where upon the methodology described in this petition would be applied to Hat Island on a going-forward basis.

levels of support in higher cost areas and correspondingly lower levels of support in lower cost areas. The companies have reviewed their internal support and operating systems. Disaggregation under this methodology (two areas within a wire center) is relatively easy to administer and track. The information can be supplied to or developed by USAC and can be provided to competitors by USAC or made available to them through other means. The support which is available for porting in each area is uniquely identified by a combination of wire center and CBG.

B. Approval of the Proposed Alternate Methodology for Distribution of Portable Universal Funds Is in the Public Interest.

Competitors should compete for customers, not for universal service support. The need for the variation in support is to avoid potential "cream-skimming." If ETC designation occurs at the exchange level, rather than the study area level, and universal service support is not geographically disaggregated, a competitive ETC could receive a windfall by entering a relatively low cost exchange and receiving average study area support per line. Similarly, a competitive ETC could enter an exchange and receive a windfall for serving mostly customers located near the wire center or suffer losses if the majority of customers subscribing to its services are those at the greatest distances from the wire center. The same problematic situations are avoided for an incumbent that loses customers that are not evenly distributed throughout its service area.

This alternate methodology is in the public interest. It promotes the pro-competitive policies of the Federal Act and the laws and policies of the State of Washington. It also provides an opportunity for the Commission to test a revised methodology, perhaps with an eye to revising the current rules on porting of universal service funds.

III.

CONCLUSION

Based upon this petition and the material provided with it, the Washington Utilities and Transportation Commission and the rural companies which are joint petitioners request:

(1) The Federal Communications Commission concur with the ETC service area designations contained in the WUTC Order Designating Eligible Telecommunications Carriers, Docket Nos. UT-970333 through UT-970354 and UT-970356, specifically that the individual exchanges for the following rural companies be established as their respective service areas: Asotin Telephone Company; CenturyTel of Cowiche; CenturyTel of Washington; Ellensburg Telephone Company; Hat Island Telephone Company; Hood Canal Telephone Co., Inc.; Inland Telephone Company; Kalama Telephone Company; Lewis River Telephone Company; Mashell Telecom, Inc.; McDaniel Telephone Company; Pend Oreille Telephone Company; Pioneer Telephone Company; St. John, Co-operative Telephone And Telegraph Company; Tenino Telephone Company; The Toledo Telephone Co., Inc.; United Telephone Company of the Northwest; Western Wahkiakum County Telephone Company; Whidbey Telephone Company; and Yelm Telephone Company,²⁰ and

(2) The Commission grant a waiver from the present requirement for distributing universal service funds associated with the petitioning companies' service areas, set forth in 47 C.F.R. § 54.307, and adopt the methodology proposed in this Petition, including (a) the use of disaggregation of study areas for the purpose of determining portable federal universal service

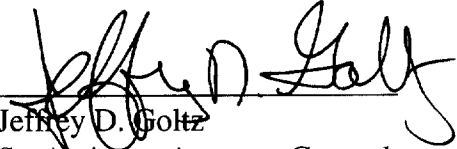
²⁰ The joinder of the rural companies in this request is subject to the limitation set forth in footnote 2, above.

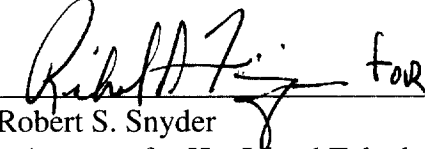
support as described in Appendix E of this petition, and (b) agreement with the calculated support levels which appear in Appendix F of this petition for 1998. The amounts for future years would be determined by applying the methodology described above to total study area support amounts available for those years.

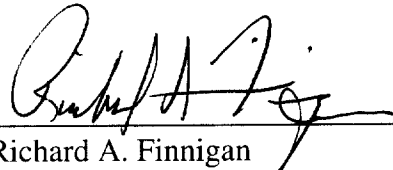
Dated, this 14th day of August, 1998.

Respectfully submitted,

CHRISTINE O. GREGOIRE
Attorney General


Jeffrey D. Goltz
Sr. Assistant Attorney General
Attorney for WUTC
1400 S. Evergreen Park Drive, S.W.
P.O. Box 40128
Olympia, Washington 98504-0128
(360) 664-1186
FAX (360) 586-5522


Robert S. Snyder
Attorney for Hat Island Telephone Company,
Hood Canal Telephone Co. Inc., Inland
Telephone Company, Kalama Telephone
Company, Pioneer Telephone Company,
St. John, Co-operative Telephone And
Telegraph Company, Tenino Telephone
Company, Western Wahkiakum County
Telephone Company, and Whidbey
Telephone Company
1000 Second Avenue, 30th Floor
Seattle, WA 98104
(206) 622-2226
FAX (206) 622-2227


Richard A. Finnigan
Attorney for Asotin Telephone Company,
CenturyTel of Cowiche, Ellensburg
Telephone Company, CenturyTel of
Washington, Mashell Telecom, Inc., Lewis
River Telephone Company, McDaniel
Telephone Company, Pend Oreille
Telephone Company, The Toledo Telephone
Co., Inc., United Telephone Company of the
Northwest, and Yelm Telephone Company
2405 S Evergreen Park Drive SW, Suite B-3
Olympia, WA 98502
(360) 753-7012
FAX (360) 753-6862

APPENDIX A

SERVICE DATE

DEC 23 1997

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

In The Matter of the Petitions of	)	DOCKET NOS.
)	
YELM TELEPHONE COMPANY; THE TOLEDO	)	UT-970333; UT-970334
TELEPHONE COMPANY; McDANIEL TELEPHONE	)	UT-970335; UT-970336
COMPANY; MASHELL TELECOM, INC.; LEWIS	)	UT-970337; UT-970338
RIVER TELEPHONE COMPANY; HOOD CANAL	)	UT-970339; UT-970340
TELEPHONE COMPANY; ELLENSBURG	)	UT-970341; UT-970342
COMPANY; ASOTIN TELEPHONE	)	UT-970343; UT-970344
COMPANY; TELEPHONE UTILITIES OF	)	UT-970345; UT-970346
WASHINGTON, INC.; PEND OREILLE TELEPHONE	)	UT-970347; UT-970348
COMPANY; TENINO TELEPHONE COMPANY;	)	UT-970349; UT-970350
KALAMA TELEPHONE COMPANY; UNITED	)	UT-970351; UT-970352
STATES CELLULAR CORPORATION; PIONEER	)	UT-970353; UT-970354
TELEPHONE COMPANY; HAT ISLAND	)	UT-970356
TELEPHONE COMPANY; GTE NORTHWEST,)	
INCORPORATED; UNITED TELEPHONE COMPANY	)	ORDER DESIGNATING
OF THE NORTHWEST; WESTERN WAHKIAKUM	)	ELIGIBLE
COUNTY TELEPHONE COMPANY; INLAND	)	TELECOMMUNICATIONS
TELEPHONE COMPANY; ST. JOHN CO-OPERATIVE	)	CARRIERS
TELEPHONE AND TELEGRAPH COMPANY;)	
WHIDBEY TELEPHONE COMPANY; U S WEST)	
COMMUNICATIONS, INC.; and COWICHE)	
TELEPHONE COMPANY, INC.)	
)	
for designation as an Eligible Telecommunications)	
Carrier.)	
)	

I. INTRODUCTION

The Federal Telecommunications Act of 1996 (1996 Act), substantially revised the national telecommunications policy and contemplated that the states, acting through their state public utility commissions, implement that policy by conducting various proceedings. The federal policy embodied in the Act coincides, to a great extent, with the preexisting policy of the State of Washington as expressed by the Legislature and implemented by this Commission.

The 1996 Act (as well as Washington law) embraces the policy that certain telecommunications services should be available universally. Congress articulated the basics of what should be included as part of "universal service," 47 U.S.C. §254(b), and established a

Federal-State Joint Board on Universal Service to recommend to the FCC the details of what should be included within the concept of such service. These services are to be supported in high cost areas by money from a fund which is supported by carrier contributions. 47 U.S.C. §254(d); Recommended Decision, In the Matter of Federal-State Joint Board on Universal Service, CC Docket No. 96-45 (November 8, 1996), and First Report and Order, In the Matter of Federal-State Joint Board on Universal Service, CC Docket No. 96-45 (May 8, 1997) (Universal Service Order).

Congress stated that certain carriers, designated "Eligible Telecommunications Carriers" (ETCs), may draw from the fund for their provision of the described services in high cost areas. The following services must be provided by a carrier in order to be eligible for federal universal service support: single-party service; voice grade access to the public switched network; dual tone multi-frequency signaling or its functional equivalent; access to emergency services, including, in some circumstances, access to 911 and E911; access to operator services; access to interexchange services; access to directory assistance; and lifeline and link-up programs, including free toll limitation services for qualifying low-income consumers.

Congress left the task of designating such carriers to the state commissions. 47 U.S.C. § 214(e)(2). In these proceedings, we undertake that task.

II. PETITIONS

Twenty-three companies filed petitions for eligible telecommunications carrier designation with the Commission.¹ The docket numbers assigned, the petitioners, and a brief description of the petitions are as follows:

Docket No. UT-970333 On October 1, 1997, Yelm Telephone Company (Yelm) filed a Petition seeking designation for its study area consisting of the exchanges served on December 10, 1997, as indicated by its tariffs. Yelm included in its petition a request for a waiver for compliance with toll control as defined in 47 C.F.R. §54.400(c) and requested additional time to complete network upgrades pursuant to 47 C.F.R. §54.101(c)

Docket No. UT-970334 On October 1, 1997, The Toledo Telephone Company (Toledo) filed a Petition seeking designation for its study area consisting of the exchanges served on December 10, 1997, as indicated by its tariffs. Toledo included in its petition a request for a waiver for compliance with toll control as defined in 47 C.F.R. §54.400(a)(3) and requested additional time to complete network upgrades pursuant to 47 C.F.R. §54.101(c).

¹ A twenty-fourth petition was filed by Nextlink, UT-970355; it was withdrawn prior to commencement of the initial open meeting on November 26, 1997.

Docket No. UT-970335 On October 1, 1997, McDaniel Telephone Company (McDaniel) filed a Petition seeking designation for its study area consisting of the exchanges served on December 10, 1997, as indicated by its tariffs. McDaniel included in its petition a request for a waiver for compliance with toll control as defined in 47 C.F.R. §54.400(a)(3) and requested additional time to complete network upgrades pursuant to 47 C.F.R. §54.101(c).

Docket No. UT-970336 On October 1, 1997, Mashell Telecom, Inc. (Mashell) filed a Petition seeking designation for its study area consisting of the exchanges served on December 10, 1997, as indicated by its tariffs. Mashell included in its petition a request for a waiver for compliance with toll control as defined in 47 C.F.R. §54.400(a)(3) and requested additional time to complete network upgrades pursuant to 47 C.F.R. §54.101(c).

Docket No. UT-970337 On October 1, 1997, Lewis River Telephone Company (Lewis River) filed a Petition seeking designation for its study area consisting of the exchanges served on December 10, 1997, as indicated by its tariffs. Lewis River included in its petition a request for a waiver for compliance with toll control as defined in 47 C.F.R. §54.400(a)(3) and requested additional time to complete network upgrades pursuant to 47 C.F.R. §54.101(c).

Docket No. UT-970338 On October 1, 1997, Hood Canal Telephone Company (Hood Canal) filed a Petition seeking designation for its study area consisting of the exchanges served on December 10, 1997, as indicated by its tariffs. Hood Canal included in its petition a request for a waiver for compliance with toll control as defined in 47 C.F.R. §54.400(a)(3) and requested additional time to complete network upgrades pursuant to 47 C.F.R. §54.101(c).

Docket No. UT-970339 On October 1, 1997, Ellensburg Telephone Company (Ellensburg) filed a Petition seeking designation for its study area consisting of the exchanges served on December 10, 1997, as indicated by its tariffs. Ellensburg included in its petition a request for a waiver for compliance with toll control as defined in 47 C.F.R. §54.400(a)(3) and requested additional time to complete network upgrades pursuant to 47 C.F.R. §54.101(c).

Docket No. UT-970340 On October 1, 1997, Asotin Telephone Company (Asotin) filed a Petition seeking designation for its study area consisting of the exchanges served on December 10, 1997, as indicated by its tariffs. Asotin included in its petition a request for a waiver for compliance with toll control as defined in 47 C.F.R. §54.400(a)(3) and requested additional time to complete network upgrades pursuant to 47 C.F.R. §54.101(c).

Docket No. UT-970341 On October 6, 1997, Telephone Utilities of Washington, Inc. (Telephone Utilities) filed a Petition seeking designation for its study area consisting of the exchanges served on December 10, 1997, as indicated by its tariffs. Telephone Utilities included in its petition a request for a waiver for compliance with toll control as defined in 47 C.F.R. §54.400(a)(3) and requested additional time to complete network upgrades pursuant to 47 C.F.R. §54.101(c).